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Argentina

Canned Deciduous Fruit

Annual

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Report Highlights:

In Cy 2003, domestic consumption is expected to rebound slightly, while a record high exports of 20,000 MT are forecast due to enhanced competitiveness as a result of the peso devaluation. Despite lower production in CY 2002, current exports of canned peaches have surpassed all expectations. Exports through the first six months of CY 2002 have doubled the volume exported in all CY 2001. This trend is expected to continue for the rest of CY 2002 reaching an export volume of 6,800 MT. In contrast, total paralysis defined the import sector where only a few tons have entered from Brazil so far in CY 2002. Higher domestic prices, created by both the devaluation and inflation, have severely depressed local consumption, allowing for increased exports.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Buenos Aires [AR1], AR

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Section I: Situation and Outlook

1. Production

Fresh peaches delivered for processing in CY 2002 is estimated at 97,800 MT, 4 percent less than the 102,000 MT in CY 2001 due to unfavorable weather conditions and pest attack. Fresh fruit for processing in CY 2003 is forecast at 100,000 MT. This figure is based on the current good state of the plantations and the absence of unfavorable climatic events. To date, no frost has been registered, though the risk of frost continues until mid October. Hail and untimely rains can come until late January, yielding losses in fruit quality.

Mendoza province produces 90 percent of all peaches in Argentina. The two most important zones in terms of acreage in the Mendoza growing region are the southern and the eastern zones. The southern zone has the largest amount of small farms (five hectares in average), the oldest plantations and the lowest yields in the region. In the southern zones hail damage of 10 percent on average is registered on the fruits every year. A hail protection program has been set for the whole region for CY 2003 as the government of Mendoza Province has hired a company that will bomb hail clouds from the air. The eastern zone accounts for 38 percent of area and 42 percent on production. Plantations here are a little younger and farms are bigger in size than in the south.

Table 1: Production zones in Mendoza Province CY 2002

Variety	Zones in Mendoza Province									
	Eastern		Northern		Uco Valley		Southern		Total	
	Area (ha)	Prod. (MT)	Area (ha)	Prod. (MT)	Area (ha)	Prod. (MT)	Area (ha)	Prod. (MT)	Area (ha)	Prod. (MT)
Fortune	247	6318	11	190	170	2520	439	5583	867	14611
Palora	171	3246	8	154	33	628	169	3212	381	7240
Bowen	148	3704	9	216	126	3287	24	472	307	7679
Loadel	218	5319	5	113	140	2707	168	3339	531	77478
Andross	184	3734	2	49	113	2275	24	479	323	6537
Dr. Davis	86	4283	76	4204	45	1809	6	283	213	10579
Ross	79	3321	30	1511	60	2259	6	239	175	7330
Others	504	11437	85	4582	345	7841	573	8536	1507	32396
Total	1636	41361	227	11018	1032	2332	1408	22143	4303	97847

Source: Institute for Rural Development (IDR)

Processing Sector

It is estimated that in CY 2003, production of canned peaches will surpass the volume produced in CY 2002 by around 20,000 MT to 67,000 MT, a 42 percent increase with respect to CY 2002 due to a return to the historical proportion of fresh peaches used by the canned peaches sector. Fifty-five million cans of peaches (47,000 MT) were produced in CY 2002. The proportion of fresh peaches sent to process of can peaches dropped against peach pulp from the traditional 70 percent to 50 percent in CY 2002. The 70 percent peso devaluation at the beginning of CY 2002 made produce prices in Argentine pesos very attractive and farmers were tempted to sell their produce to the pulp sector which paid more than the can peaches one. Quality was another factor that influenced farmers' decision to send their fruit to the pulp sector. Untimely rains and hail storms later in CY 2001, rendered a 20 percent extra second quality fruit which was delivered to the pulp industry.

The processing sector in Mendoza Province is located throughout the four producing zones. However, the southern zone, with only 23 percent of the fresh fruit production accounts for 52 percent of the total processing capacity of the whole region. As a result, large amounts of fresh fruit have to be transported more than 200 kilometers with its consequent damage and lost of quality.

2. Trade

Exportable Supply

In CY 2003, exports of canned peaches are expected to continue growing as domestic consumption drops to the historical one can per capita a year. Mainly due to the peso devaluation, exports of canned peaches in CY 2003 are forecast to reach a historical record of 20,000 MT. In the first half of CY 2002, exports were 4,278 MT, surpassing the 2,500 MT forecasted for the whole year and almost doubling the 2,267 MT exported in the whole of CY 2001. Sources in the industry indicate that by the end of CY 2002 exports of canned peaches will reach eight million cans (6,800 MT). Despite lower international prices, export values skyrocketed from \$800,500 in the first part of CY 2001 to \$2.6 million for the same period in CY 2002. Almost all of Argentina's canned peaches exports are destined for neighboring countries. Brazil, with a volume of 1,500 MT, leads the group of major importers followed by Uruguay (1,200 MT), Chile (933 MT) and Paraguay (513 MT).

Table 2: Exports	2001	June 2001	June 2002
Volume (MT)	2,267	800	4,278
FOB Values (\$)	\$2,043,852	\$800,581	\$2,663,241
Average FOB price(\$)	\$0.90	\$1.00	\$0.62

Source: INDEC (The National Institute for Statistics)

Imports

The devaluation of the Argentine currency has had the opposite effect on imports than on exports. Imports of canned peaches fell to the lowest level ever to less than one single metric ton in the first semester of CY 2002. In CY 2001, imports for the same period had already reached the 99 percent of total annual imported volume of 499 MT. In CY 2003, imports are expected to continue being considerable low as the exchange rate is forecast to be maintained high.

Policy

In an effort to raise revenues the GOA imposed a 5 percent export tax on canned peaches. Rebates on exports remain at 4.05 percent although payments have been delayed for the last half a year. The safeguard duty of 0.45 \$/Kg imposed on imported canned peaches is set to be reduced to 0.40 \$/kg in January 2003. However, the reduction is not expected to allow increased imports.

Table 3: Import Tariffs	Mercosur	Brazil	EU	Chile & Bolivia	Rest of the world
CET (common External Tariff) (%)	0	0	15.5	15.5	15.5
Safeguard Clause Duty (\$/Kg)	0	0	0.45	0.45	0.45

Statistical tax (%)	0.5	0.5	0.5	0.5	0.5
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Countervail duty	0	0	10.5	0	0
Quotas (cans)	0	60,000	0	0	0

3. Factors affecting Industry Structure

Quality

CY 2002 crop yielded 65,640 MT (67 percent of the total fresh fruit harvested) between 100 and 250 grams which is the size used by the canned peaches processing sector. 9,687 MT (10 percent) were heavier than 250 grams and 22,700 MT (23 percent) were less than 100 grams.

Table 4: Fruit quality in terms of fruit size			
Years	Less than 100 grams	100 - 250 grams	bigger than 250 grams
CY 2002	23	67	10
CY 2001	33	58	9
CY2000	20	76	4

Source: The Institute for Rural Development (IDR)

Cost of production

The devaluation of the Argentine currency has affected the composition of the cost of production of a can of peaches in a considerable manner. Total cost of production of a can of peaches dropped in dollar terms 39 percent from \$0.66 in CY 2001 to \$0.40 in CY 2002. However, in Argentine peso terms, the cost of production of a can of peaches grew 118 percent from AR\$0.66 in CY 2001 to AR\$1,44 in June CY 2002.

Table 5: The cost of production for 2002 for a can of yellow peaches in halves, light syrup, 50 percent sugar 50 percent corn syrup, 14-28 Brix, 850 grams in U.S. dollars, with 2001 comparable prices is as		
	CY 2001	CY 2002
Raw material	0.16	0.104
Sugar	0.015	0.010
Corn syrup	0.01	0.009
Tin plate	0.18	0.138
Paperboard	0.015	0.010
Labels	0.01	0.007
Labor	0.06	0.024
Energy / Fuel	0.015	0.008
Subtotal	0.465	0.310
Other inputs	0.015	0.010
Total direct cost	0.48	0.320
Indirect cost	0.15	0.065

Freight to Buenos Aires	0.03	0.015
Total cost	0.66	0.400

Prices

Table 6: Domestic Prices				
850 grams net weigh can	2001 (1\$ = 1AR\$)		June 2002 (1\$ = 3.6AR\$)	
Brand	AR Pesos	US Dollars	AR Pesos	US Dollars
La Campagnola	1.33	1.33	2.69	0.75
Arcor	1.39	1.39	3.19	0.89
Canale	1.23	1.23	2.59	0.72
Alco	1.50	1.50	2.19	0.61
Molto	1.55	1.55	2.95	0.82
Santa Isabel	1.51	1.51	2.19	0.61
Average price	1.41	1.41	2.63	0.73

Export FOB prices fell from \$0.93 in CY 2000 to \$0.77 in CY 2001 and continued falling to \$0.62 in the first part of CY 2002. Domestic prices also have dropped in the last two years from \$1.41 to \$0.73 in CY 2002. However, since February 2002 when the peso was devalued, inflation has accumulated a rate of 40 percent (September 2002) and domestic prices of canned peaches in peso terms increased 86 percent from AR\$1.41 in CY 2001 to AR\$2.63 in CY 2002.

The import price for canned peaches from Greece for June 2002 is \$0.80 (AR\$ 2.91) not far from matching domestic prices for locally produced canned peaches. If not for the import duties totaling 27 percent and a safeguard clause duty of \$/Kg 0.45, domestically produced canned peaches would not be able to compete with their counterparts from Europe.

SWOT Analysis

Strengths

1. Availability of fertile land at a low price compared with international standards.
2. Adequate weather conditions to grow peaches: dry, sunny, large difference of temperature between day and night.
3. Large proportion of young plantations.
4. New techniques available to produce changes in technology
5. Growing international and domestic demand for canned peaches.
6. Low cost of labor.
7. Government aware of the importance of its participation to ensure fruit quality.

Weaknesses:

1. Seasonability of the production
2. Dependency on imported inputs.
3. Lack of domestic or international credit.
4. Lack of skilled labor.
5. Producers unwillingness to change toward new technologies.

Opportunities

1. High exchange rate that improves competitiveness.
2. Development of new markets in Latin-American and Southeastern Asia.

Threats

1. Unreliable international market: subsidies in competitor countries and import tariff in market countries.
2. Unreliable domestic economic and politic environment.
3. Uncertainties regarding government's policies: Export taxes, tariffs, taxes.

Section II: Statistical Tables

PSD Table						
Country	Argentina					
Commodity	Canned Peaches				(MT)(MT, Net Weight)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Deliv. To Processors	102810	102810	90000	97800	0	100000
Beginning Stocks	1605	1605	356	356	306	56
Production	70520	70520	55000	47000	0	67000
Imports	499	499	450	0	0	0
TOTAL SUPPLY	72624	72624	55806	47356	306	67056
Exports	2268	2268	2500	6800	0	20000
Domestic Consumption	70000	70000	53000	40500	0	46500
Ending Stocks	356	356	306	56	0	556
TOTAL DISTRIBUTION	72624	72624	55806	47356	0	67056

Export Trade Matrix			
Country	Argentina		
Commodity	Canned Peaches		
Time period	CY	Units:	MT
Exports for:	2001		June 2002
U.S.	38	U.S.	40
Others		Others	
Brazil	672	Brazil	1504
Uruguay	753	Uruguay	1205
Paraguay	195	Chile	933
Chile	19	Paraguay	513
Bolivia	179	Bolivia	61
Venezuela	5	Venezuela	13
Peru	18	Guatemala	3
Guatemala	6	Canada	2
Dominican Rep.	95	Costa Rica	2
Japan	277	Japan	0
Total for Others	2219		4236
Others not Listed	10		2
Grand Total	2267		4278

Import Trade Matrix			
Country	Argentina		
Commodity	Canned Peaches		
Time period	CY	Units:	MT
Imports for:	2001		June 2002
U.S.	0	U.S.	0
Others		Others	
Greece	426	Greece	0
Chile	61	Chile	0.2
Brazil	2	Brazil	0.5
Total for Others	489		0.7
Others not Listed	0		0
Grand Total	489		0.7

Prices Table			
Country	Argentina		
Commodity	Canned Peaches		
Prices in	U.S. dollars	per uom	Kg.
Year	2001	June 2002	% Change
Jan	0.93	0.66	-29.03%
Feb	0.83	0.6	-27.71%
Mar	0.95	0.57	-40.00%
Apr	0.79	0.64	-18.99%
May	0.6	0.67	11.67%
Jun	0.83	0.59	-28.92%
Jul	0.73	0	-100.00%
Aug	0.8	0	-100.00%
Sep	0.72	0	-100.00%
Oct	0.7	0	-100.00%
Nov	0.7	0	-100.00%
Dec	0.7	0	-100.00%
Exchange Rate	3.65	Local currency/US \$	